

Decision No. 31355

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

MIDLAND COUNTIES PUBLIC SERVICE CORPORATION and PACIFIC GAS AND ELECTRIC COMPANY,

for an order authorizing Pacific Company to assume all existing debts, liabilities, and obligations of Midland Corporation to persons other than Pacific Company, and authorizing Midland Corporation to distribute and transfer to Pacific Company the properties and assets of Midland Corporation in conformity with the provisions of the agreement herein mentioned.

Application No. 22156

Wm. B. Bosley and R. W. DuVal, for applicants.

WHITSELL, Commissioner:

O P I N I O N

In this proceeding Pacific Gas and Electric Company, hereinafter sometimes referred to as Pacific, and Midland Counties Public Service Corporation, hereinafter referred to as Midland, ask the Commission to make its orders as follows:

1. Authorizing Pacific to assume, pay and discharge all debts, liabilities and obligations of Midland to persons other than Pacific and authorizing Midland to distribute and transfer to Pacific its properties and assets in conformity with the provisions of the agreement between said applicants, dated August 11, 1938 filed as Exhibit "D" attached to the petition herein;
2. Granting and conferring upon Midland all necessary permission and authority, upon the distribution and transfer to Pacific of its said properties and assets as in this petition provided, to cease furnishing and supplying service as a public utility and finding and declaring that Midland is relieved of the duties and functions of a public utility corporation in the territory in which it now is or may be furnishing public utility service by means of the properties to be distributed and transferred as aforesaid; and

3. Granting and conferring upon Pacific all necessary permission and authority, upon acquiring the said properties of Midland to record the cost of acquisition thereof upon its books either in accordance with Proposal A or Proposal B set forth in Paragraph VIII of the amended petition filed in this proceeding, as the Commission may determine, but without prejudice to the right of Pacific to prove actual historical cost of said properties in the process of reclassifying its accounts.

An initial hearing was held in this matter at Fresno on September 20, 1938. Thereafter on September 23, 1938 applicants filed their amendment to the application revising the figures at which Pacific proposes to record on its books the properties to be acquired from San Joaquin. On September 26, 1938, a further hearing was held at which time the matter was taken under submission.

Midland is engaged in the public utility business of furnishing and distributing electric energy for light, heat, power and other purposes in the western portion of Fresno and Kings Counties, in the southern portion of Monterey County, the entire county of San Luis Obispo and the northern portion of Santa Barbara County. As of December 31, 1937 it had 17,901 electric customers.

It appears that since June 12, 1930 Midland has been controlled through stock ownership by Pacific which owns all of its outstanding stock consisting of \$1,000,000.00 of common stock and \$500.00 of preferred stock. Such stock was acquired by Pacific pursuant to authority granted by Decision No. 22432, dated May 14, 1930 (34 CRC 661).

It is of record in this proceeding that the Board of Directors of Pacific at a meeting held on August 10, 1938 adopted a resolution (Exhibit B) wherein it appears, among other things, that Pacific, as the owner of all the issued shares of stock of Midland, has elected to cause that corporation to wind up its affairs and effect its dissolution, and has authorized and directed its officers to execute and file with Midland its written consent to the winding up of Midland's

affairs and its voluntary dissolution and to do all things necessary or proper for completing such winding up and dissolution. Thereafter the Board of Directors of Midland at a meeting held on August 11, 1938 adopted a resolution stating, among other things, its purpose and intention to wind up its affairs, to effect its voluntary dissolution and to forthwith cease to carry on business.

To accomplish the end set forth in the resolutions the officers of applicants entered into and executed a written contract, dated August 11, 1938. In said contract Pacific agrees, among other things, to assume, pay and discharge all debts and liabilities of Midland to persons other than Pacific, and to assume, perform and discharge all of Midland's obligations of every kind and character to persons other than Pacific, whether such obligations arise out of contract, tort or judgment or exist under or by force of any law or statute or any municipal or county ordinance or by virtue of the grant and acceptance of any franchise or license. Midland agrees, among other things, to assign to Pacific all its current assets, to declare and pay a cash dividend equal in amount to the undistributed balance of its surplus profits and earnings accumulated after June 12, 1930 and to distribute to Pacific all of its remaining properties and assets of every kind and character.

In taking over the properties the request is made by Pacific for permission to charge to plant and fixed capital accounts the cost to it of acquiring the properties constituting Midland's fixed capital in service and under construction and to adjust the item of miscellaneous intangible capital, now carried at \$1,218,948.62, by the amount of the difference between said cost and the historical cost of the properties as finally determined. In Exhibit F, the cost of acquisition to Pacific as of December 31, 1937 is reported at \$5,364,695.53 which is made up of the following:

Advances for redemption of funded debt	\$2,307,419.92
Common stock issued	931,820.72
Excess of current liabilities, casualty and pension reserves and surplus since June 12, 1930 over other assets and deferred charges	<u>2,125,454.89</u>
Total	<u>\$5,364,695.53</u>

In Exhibit E attached to the amendment to the application, applicants report the historical cost of Midland's fixed capital in service and under construction and the reserve for depreciation as of December 31, 1937, as shown by Midland's books. From this exhibit the following figures are obtained:

Intangible fixed capital:		
Organization	\$ 6,872.67	
Franchises	1,793.23	
Miscellaneous	<u>1,218,948.62</u>	\$1,227,614.52
Tangible fixed capital		6,825,754.55
Construction work in progress		<u>71,735.85</u>
Total		\$8,125,104.92
Less--Reserve for depreciation		<u>1,877,584.83</u>
Balance		<u>\$6,247,520.09</u>

The \$6,247,520.09 is \$882,824.56 in excess of the reported cost to Pacific. It is proposed to adjust this difference against the miscellaneous intangible capital balance, thereby reducing the balance in that account from \$1,218,948.62 to \$336,124.06 and the total fixed capital from \$8,125,104.92 to \$7,242,280.36.

As stated, Pacific proposes to record the fixed capital to be acquired from Midland at \$5,364,695.53 as of December 31, 1937, ⁽¹⁾ after deducting the reserve for depreciation. To accomplish this it submits in the amendment to the application, two alternative proposals, either of which will be followed as the Commission may determine.

In "Proposal A" it suggests the charge to "Purchase Account-Midland Counties Public Service Corporation" of the sum of \$7,242,280.36 (being the book figures of Midland as of December 31, 1937 less the write-down in the miscellaneous intangible capital account) and the credit

(1) The amount will be subject to adjustment for transactions since December 31, 1937.

to depreciation reserve account of the sum of \$1,877,584.83, the difference between the two figures being the reported cost to it of \$5,364,695.53. Thereafter it proposes to distribute the \$7,242,280.36 to the appropriate fixed capital accounts.

In "Proposal B" it suggest the charge to fixed capital accounts and the credit to depreciation reserve account of the following amounts:

To tangible fixed capital in service and under construction		\$6,897,490.40
To intangible plant:		
Organization	\$ 6,872.67	
Franchises	1,793.23	
Miscellaneous	<u>336,124.06</u>	
	Total	<u>344,789.96</u>
To depreciation reserve account		<u>\$7,242,280.36</u>
Net cost of properties acquired		<u>1,877,584.83</u>
		<u>\$5,364,695.53</u>

By Decision No. 30269, dated October 25, 1937, as amended by Decision No. 30339, dated November 15, 1937, in Case No. 4230, the Commission adopted and prescribed, effective January 1, 1938, a uniform system of accounts for electrical corporations. By this decision the Commission has directed electrical corporations to reclassify on or before December 31, 1938, their investment in electric plant and show the original cost thereof. The system of accounts prescribed by said decision contains instructions covering that subject. It also contains accounting instructions covering the subject of "electric plant purchased". Account 391, reads:

"A. This account shall include the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, pending the distribution thereof to the appropriate accounts in accordance with electric plant instruction 4.

B. Within six (6) months from the date of acquisition of property recorded herein, there shall be filed with the Commission the proposed journal entries to clear from this account the cost to the utility of the property acquired."

We expect Pacific, if it acquires the properties of Midland to record the properties on its books in the manner required by the system of accounts prescribed by the Commission. There is therefore no

need to pass expressly upon Proposal A or Proposal B.

If the Pacific acquires the properties of Midland, it will be required to file with the Commission monthly reports showing by accounts its electric operating revenues and operating expenses applicable to the area now served by Midland, and the gross and net cost of additions and betterments to its electric properties in said area.

The distribution and transfer of the assets of Midland should result in a reduction of expenses and be of benefit to the public. I therefore recommend the following form of order:

O R D E R

Application having been made to the Railroad Commission for an order, as indicated in the foregoing opinion, public hearings having been held and the Commission having considered the evidence submitted and being of the opinion that the application should be granted subject to the provisions of this order,

IT IS HEREBY ORDERED as follows:

1. Midland Counties Public Service Corporation may, after the effective date of this order, and on or before March 31, 1939, distribute and transfer to Pacific Gas and Electric Company, its properties and other assets in conformity with the provisions of the agreement between said companies dated August 11, 1938, filed as Exhibit "D" in this proceeding.
2. Midland Counties Public Service Corporation, upon the distribution and transfer of its properties and assets to the Pacific Gas and Electric Company, as authorized herein, may cease furnishing and supplying service as a public utility and it hereby is relieved of the duties and functions of a public utility corporation in the territory in which it now

- is or may be furnishing public utility service by means of the properties to be so distributed and transferred.
3. Pacific Gas and Electric Company upon acquiring the plants, properties and assets as herein authorized, shall assume, pay, and discharge all debts, liabilities and obligations of Midland Counties Public Service Corporation, to persons other than Pacific, and shall assume, perform and discharge all obligations of Midland Counties Public Service Corporation, existing and contingent, of every kind and character, to persons other than Pacific, whether such obligations arise out of contract, tort or judgment or exist under or by force of any law or statute or any municipal or county ordinance or by virtue of the grant or acceptance of any franchise or permit.
 4. Pacific Gas and Electric Company and Midland Counties Public Service Corporation generally may do whatsoever may be necessary and proper for completely winding up and effecting the dissolution of Midland Counties Public Service Corporation as provided in the said agreement of August 11, 1938.
 5. Pacific Gas and Electric Company upon acquiring the plants, properties and assets of Midland Counties Public Service Corporation shall record said plants, properties and assets on its books of account in the manner prescribed in the uniform system of accounts now in effect.
 6. If the Pacific Gas and Electric Company acquires the plants, properties and assets of Midland Counties Public Service Corporation, it shall file with the Commission, unless otherwise directed by the Commission, monthly reports showing by accounts its operating electric revenues and expenses, including depreciation, taxes and uncollectible revenues applicable to the area now served by Midland Counties Public Service Corporation and the gross and net

cost of additions and betterments to its electric property in said area.

7. That in granting this application as herein provided, the Commission has made no determination of the value of the properties of Midland Counties Public Service Corporation.
8. Pacific Gas and Electric Company, within thirty (30) days after execution, shall file with the Commission a certified copy of each deed of conveyance or assignment by which it receives title to the properties acquired from Midland Counties Public Service Corporation and at the same time a statement showing the exact date upon which it acquired and commenced operating such properties as its own.
9. The authority herein granted will become effective when Pacific Gas and Electric Company and Midland Counties Public Service Corporation have filed with the Commission a statement in which they accept the authorizations herein given under the terms and conditions herein specified.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California this 13th day of October, 1938.

Paul W. Higgins
John S. Wheeler
Frank R. Dyer
Ray L. King